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IMPACT OF COVID-19 ON GOODS AND SERVICES TAX (GST) WITH
RESPECT TO MICRO SMALL AND MEDIUM ENTERPRISES (MSME)
SECTOR

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ABSTRACT

Covid-19, a giant virus has shaken the entire world and no country is left from its grasp. It has affected people's life and have created an imbalance in the world economy. The impact is devastating and the outcome is unpredictable and uncertain. The purpose of this research paper is to study that how Covid-19 has till now affected the GST collections and GST scenario in the MSME sector. To revive the MSME sector we have tried to highlight revival strategies of Indian MSME once the phase of uncertainty fades. We have discussed few measures that Govt of India has taken to achieve the dream of Self- Reliant India or Atmanirbhar Bharat. After studying and analysing the current impact, it has been observed that the business practices of Indian MSMEs will be totally changed. MSMEs have to adopt digital practices in their business and bring in innovation. Due to nation-wide lockdown, supply of goods and services are affected adversely which has affected the GST collection. The MSMEs, once the pandemic is over should focus on cash flows rather than profit and should look for accessing finance.

1. Introduction

The giant virus, Covid-19 has affected every continent more or less and India is no exception. The pandemic is moving like a wave and almost all the countries are maintaining and following social distancing as one the major measure to control the spread of the virus. Some countries have also maintained complete lockdown for few months. India's situation is better if being compared with other developed countries. However, the cases are increasing day by day and death toll is also rising at its pace. Shops, theatres, restaurants are closed across the world. Moreover, people are also losing jobs.

The virus has spelt crisis across the world and has affected the economic conditions of almost all countries. India is facing the heat of this effect and trying its best to curb the rapid spread while dealing with the economic complexities. Covid-19 has affected almost all the sectors of the economy specially MSMEs have been the worst hit. The virus has also affected the GST collections in each of the states in India which has been newly implemented in the country. It's been more than a decade the GST in India has been suggested by Kelkar Task Force in the year 2004. Post that while presenting the annual budget in the year 2006-07, Shri P. Chidambaram, had announced the introduction of GST in India from April 2010 and finally after all efforts it became Constitution (101st Amendment) Act, 2016. GST by subsuming almost all the indirect taxes has created a common national market.

The pandemic has affected GST collection with respect to MSME sector also. As per estimation, MSME sector accounts for 30-33% of total manufacturing output. It generates around 40-45% of the export and has employed 120 million.

However, the pandemic and consequent lockdown have created panic in the country. Specially, MSMEs which always faces liquidity crunch is facing the risk of extinction.

Majority of MSMEs business which depends on the daily trade continues to be vulnerable due to the shutdown and low demand. In many surveys that have been conducted on MSMEs, it has been found that large number of businesses were unable to pay remuneration to their workers and labourers, and they might have to shut down if the lockdown persists for few more months. Observing the current economic condition because of the lockdown and standstill trade and business activity over past couple of months, it is highly possible that many MSMEs might have to close their operations permanently.

2. Literature Review

Narendra Kumar Bansal, Dr. Saurabh Sharma and Arun Gautam (2020) "A study on impact of Covid-19 a global pandemic on Indian Economy: With special context to goods and service tax". In their study they have mentioned that global pandemic have affected almost all the sectors. Government would require funds and revenue for running an economy which can be collected through taxes such as income tax and GST. Since, there is an obstruction in smooth supply or flow of goods and services due to Covid-19

enforced restrictions, GST collections have been affected in the states of the India.

Ray and Subramanian (2020) “India’s Lockdown: An Interim Report”. “With the Covid-19 outbreak, the already struggling informal sector has been disproportionately affected”. It has been stated in the study that revenues from the GST have declined because of shutdowns.

S. Mahendra Dev and Rajeswari Sengupta (2020) “Covid-19: Impact on the Indian Economy”. In this study, it has been stated that enterprises have suggested for relaxations and relief by way of interest free loans, deferring tax refund, and reducing GST slabs. The Atmanirbhar can be made successful without the contributions of MSMEs. Thus, opportunities for MSMEs shall be extended as China has vacated many spaces and further, they have to survive for few months and recover from it.

Gagan Deep Sharma, Gaurav Talan and Mansi Jain (2020) “Policy Responses to the economic challenge from Covid-19 in India: A qualitative enquiry”. Changes in taxation structure, particularly GST can out some extra money in the hands of people which is likely to prevent demand destruction.

3. Objective

- 1) Effect of the current pandemic (COVID 19) on GST
- 2) Impact of COVID 19 on GST with respect to MSME sector

4. Research Methodology

The Researcher has used secondary data as available to collect the information relating to the pandemic effect which includes mainly scholarly articles or research papers, newspapers, reports of diversified agencies, web contents, journals etc. Few of the data is also taken from the authentic government tracking websites. *{It should be also noted that, not many papers are published in this area now considering the situation which is dynamically changing.}*

5. Findings

5.1 Impact of COVID 19 on GST

The COVID-19 outbreak and the resultant lockdown in the country has severely dented the revenue collections of states. The current state economic condition has forced all the states to relax few restrictions and open liquor shops and pan and Gutka shops as a measure to collect revenue to sustain.

According to State Governments, there has been a steep fall in GST collection in the month of April with few states reported serious fall in the collections.

The government is worried about the fall in the GST collections and have extended the date of filing of GST to reduce the burden on the taxpayers during this pandemic forced lockdown situation.

Few states such as Delhi, West Bengal, Assam etc have been severely affected as they have reported a steep fall. Service sector business has been stopped completely and business in manufacturing sector has been suspended, West Bengal has faced a drastic fall in the GST collection. Also, collections in hilly

areas depending largely on travel, tourism and hospitality revenue have also been hit badly. Services sector contribute more in the GDP than manufacturing sector and both the sectors are affected by this global pandemic which would hit the GDP of the country.

Due to these concerns on GST, states have started reopening liquor/alcohol shop and petrol and diesel prices have been increased. Taxes on them can generate revenue and can bring some relief to the state.

States GST makes the largest contribution in a state's total tax revenue. However, states cannot change the tax rates being charged as per their wish or as per the present condition as the same is decided by the council of GST. Therefore, in this situation also when states are facing a severely downfall in the GST collections, they cannot bring change in the rates for the rest of the year.

5.2 Impact of COVID 19 on MSME sector

Table: 1 MSME classification with effect from 1/6/2020 Composite Criteria-Investment and Turnover

Classification	Basis	Limit for Micro Enterprises	Limit for Small Enterprises	Limit for Medium Enterprises
Manufacturing and Service Sector	Investment in Plant and Machinery or equipments	< 1 crore	<10 crores	< 50 crores
	Turnover	<5 crores	<50 crores	< 250 crores

This pandemic has shaken and deteriorates the global economy. It has impacted the Indian MSME sector. It is too early to measure the impact. However, this health crisis has now resulted in economic crisis. The virus has a strong grasp over the economy and has destroyed the business cycle all over the world. Around 100 countries have closed national border and global supply chain has been collapsed and the global economy could shrink by almost 1% in 2020.

The global pandemic has left its impact on all sectors of the economy but MSMEs of India has been majorly affected and large number of stranded migrant labourers across the country is the big indication which shows how worst the Covid-19 induced lockdown has affected the MSME sector.

India has the second largest MSME sector in the world after China. MSME plays a significant role in accelerating the economic growth in the developing country like India. Uttar Pradesh has 14.20% share of MSMEs out of the total MSMEs which is the largest in the country. Close second is West Bengal with a share of 14% followed by other states such as Tamil Nadu and Maharashtra at 8%. MSMEs of the country needs an immediate assistance for their survival in the future as they are severely being impacted by the Covid-19 outbreak.

Normal business operations have been stopped for almost all types of business enterprises because of the lockdown for couple of months. If the lockdown

prolongs for more such months, MSMEs will be perished and India's economy as per KPMG report may fall below 3%.

Production has gone down and has affected the supply which will create inflation. There is a possibility of decline in the share price of SMEs which are listed in the BSE SME Exchange. People will be hesitant to invest in SME stock after this pandemic as a result of which supply will exceed demand and will lead to decline in the share price. MSME will also face liquidity crunch as all their transactions are done in cash. Lack of adequate liquidity might lead the small business to close down in coming future. This would also result in face lay off and unemployment. Also, workers are moving to their native land from their work place. Due to the pandemic movement of goods from one country to other have been stopped. Poultry firm among others are facing losses. Haats in some rural places of West Bengal, Chhattisgarh and Odisha are the main source of revenue for them. In agriculture business, due to shortage of workers, harvesting is delayed in the season and that lead to crop rotting. This would affect the food chain. Among all this one positive aspect is that the business of import and export can be self-reliant as they will no longer import and will try produce goods within the country and this will prove the Balance of payment (BOP). There is great opportunity for SMEs in the chemical industry as they can make sanitizers and apparel industry which can grab the market by producing face mask whose demand is high.

Because of their small-scale business and limited resources and weak financial stability, small scale industries are the most vulnerable ones. It is difficult for them to survive in normal times. Therefore, at times of uncertainty, they lack the capacity to deal with the unexpected and face survival problem. For the small-scale industries, technological advancement and environmental aspects would be required to build them up for the coming future and for better possibilities and success. In India, banking system to understand that entrepreneurs and MSME are key to economy and for economic development, strengthening the MSME sector is of utmost importance.

5.2.1 Initiatives Taken

1) Digitally Transform Businesses

Global Bharat launched by SAP India in association with NASSCOM Foundation, United Nations Development Programme (UNDP) and Pratham InfoTech Foundation, (a program designed to enable Indian MSMEs become globally competitive) is providing enterprise technology to the MSMEs and enabling them to be ready for the future by adopting these initiatives. The MSMEs can adopt SAPs the best ERP such as SAP Ariba Discovery offer etc. This will help the businesses to serve their customers with better product and services.

Access of SAP India's Code Unnati will be given to owners of the business and MSMEs will be provided access to 240 Business owners will have access to courses on Digital Financial, Soft Skills, Productivity Technologies that will skill the workforce digitally and adapt to the new working environments. SAP India has already trained over 1 million youth with the help of some physical

training centres. These courses will be made available to them through mobile application, and they can access the same through their smartphones.

2) Initiatives taken by the Indian Government

The RBI because of the impact of Covid-19 has temporary postponed the payback on term loans. It is also helping MSMEs in getting working capital financing or loan easily and interest payment for the borrowers has also been deferred by the RBI without an asset classification downgrade. Emergency credit lines have been introduced by many of the public sector banks for the MSMEs to borrow a certain loan amount to meet their financial obligations. Moreover, a 5 percent rate concession has been announced by Small Industries Development Bank of India (SIDBI) on all loans to MSMEs. To aid the MSME sector, GST payments has been extended till June 2020 by the Govt.

Despite all these measures and aid, MSME sector is facing problem in paying their creditors due to halted production and steep demand. They are not in a position to pay rent of the warehouses, salaries of their workers, tax etc because of very low or nil revenue generation.

The RBI recently introduced long term repo operation (LTRO) worth 1,00,000 crore, as a result bank can increase lending at cheaper interest rate. Such type of initiative will give some help to MSME sector. State bank of India has set a target to distribute 700 Crores to MSME in Mumbai. The government is working on 1 trillion packages. There is a possibility to change the definition of MSME. The proposal is still to be approved. The Indian government will also need to increase insolvency limit for SMEs and MSME to 1 crore from 1 lakh.

6. Scope and Limitations:

The study is based on the fact and circumstances and review of literature as available till the date of concluding this paper. All the data and information are available as per current situation as materialized by various secondary sources. The impact of the COVID-19, global pandemic may vary time to time. Hence, result may vary on the basis of lockdown period, number of people getting infected, active cases, number of people getting recovered, deceased rate, countries policies or measures set by the government from time to time.

7. Suggestions and Conclusion:

Till now, 1.3 crore people are already affected by corona virus across the world. The USA has the leading number of cases with almost 75,000 new cases every single day. If we consider India, there are almost 30,000 new cases coming into records as per the official reports. The effect of this is clearly visible across the world since the USA economy is not an isolated economy. Indian economy also feels the ripple effect of this. Recently the Q1 results of many companies got published which shows severe dip in profits and all this is directly proportional to the reduction in demand and supply. So, obviously GST collection is affected.

There is a huge impact on Indian economy due to this global pandemic. Outbreak of Covid-19 has devastated almost every country in the world. The

situation is uncontrollable even in the countries with powerful economies. India has done fairly well in comparison to some developed countries like the USA, Italy etc because the country has gone for quick lockdown and paid attention to social distancing. India still needs to act in a way to control the spread. Almost all the sectors in India are affected. The country would need enough time to get recovered from this pandemic effect. Since, cross broader export and import of goods has been restricted, it would encourage the domestic market to produce those goods domestically. This would improve the BOP of the country. As work from home is now going to become the new work culture, use of digital practice will be increased in near future. These would encourage Make in India and Digital India initiatives. Government should track and declare relief measures to MSMEs for their revival. A lucrative financial help is required to bring back the energy and confidence in the domestic economy particularly in the MSME sector. This would not only help them to fight the temporary financial or liquidity crunch but also can address the medium and long-term requirements.

Indian Government has taken steps to save the sector. Banks have deferred temporarily the loan payment but interests for those months are being added. Banks can however give some relief by avoiding interest for those months. Quick collection from receivable will be helpful to meet wage and salary expenses. Cross train staff practice will be helpful to some extent in the business premises, so that they will be able to perform variety of roles in business. Further exemptions in GST can also be given.

Considering the present situation, Indian Government should introduce some policy to revive the MSME sector from the economic downfall due to this global pandemic on short as well as long term basis taking into account both demand and supply impact.

Government, to ensure further liquidity can release the pending refunds related to income tax, customs and GST. From prior experience of economic downturn and liquidity crunch in the year 2008, the government considering this year's economic condition should consider giving temporary rebates in the tax and GST rates and special incentives and financial support to specific industries such as tourism and hospitality. The Government can also consider providing indirect help by reducing the employment loss by permitting the companies to defer employer share to PF or some additional benefits like bonus, increment. Many companies have started doing the same with their employees. Government can interfere in this aspect to take care of all the employees in all sectors. All these would definitely help the Indian economy to sail through this worse phase.

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